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LAOS

Laotian negotiators are disappointed with the economic assistance agreement reached with Peking earlier this month.

The Chinese turned aside Lao requests for sizable cost-free grants, but they did agree to a long-term loan of approximately \$25 million. The loan would bear no interest and would be repaid in ten equal installments beginning in 1990. The agreement, if ratified as expected by the coalition cabinet, would assure continued Chinese presence and influence in northern Laos.

The lion's share of the loan--\$17.5 million--would be used to cover the cost of constructing a road from the Muong Sai area to the royal capital of Luang Prabang. The road will be built by Chinese engineers, who, during the past year, have extended their road system in northern Laos from Muong Sai to the confluence of the Bac and Ou rivers, only 62 miles from Luang Prabang.

Another \$7 million of the loan would be earmarked for the purchase of commodities--rice, cement, trucks, textiles, petroleum products, and medical supplies. The Lao are chagrined, however, that only about one third of their commodity-aid requests were honored by the Chinese. They are also unhappy over Peking's unwillingness to pick up the tab for transporting these commodities to Laos.

The remainder of the loan would be used for the construction of quarters for Pathet Lao forces and the coalition's Joint National Political Council in Luang Prabang, and for the expenses of the Lao embassy in Peking.

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AUSTRALIA

Prime Minister Whitlam has again raised the possibility of new elections. At a press conference on Tuesday, he complained that the opposition coalition has been able to block ten major pieces of government legislation since the general elections last May. The opposition is now threatening to delay a forthcoming appropriations bill.

Similar opposition tactics in April moved Whitlam to dissolve parliament and call elections. The Prime Minister now warns that a second adverse vote when the ten bills are resubmitted or any stalling on appropriations would cause him to repeat the procedure.

Labor obviously does not relish the idea of going back to the polls. It won the May elections by only a narrow margin and has slipped in public standing since then.

Whitlam may not be forced to carry through with his threat, however. The opposition, while heartened by Labor's declining popularity, is not anxious to be saddled with trying to find answers to Australia's economic ills and may stop short of prodding Whitlam into new elections. Even so, the continuing threat of legislative roadblocks will only complicate Whitlam's efforts to come to grips with the country's problems.

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FRANCE

Defense Minister Soufflet announced a number of measures recently that reinforce, rather than redirect, French defense policy. President Giscard reportedly will reveal more of his thinking on defense at a press conference on October 24. The defense budget will be debated in the National Assembly in late October or early November.

Soufflet said France will retain the 12-month length of service for conscripts. He indicated that conscripts would get slight pay raises and would be allowed four free trips home a year. These measures will add almost \$28 million to a defense budget that currently stands at about \$9.3 billion, but they will do little to raise morale in the ranks. Soufflet promised greater efforts in the 1976 and 1977 budgets.

In the continuing defense review, the question of the balance between nuclear and conventional forces in the nation's strategic defense posture is not yet resolved. The US embassy in Paris reports that economic pressures could persuade France to increase reliance on its nuclear forces.

the defense review indicates that, from a cost effectiveness standpoint, France's strategy of deterrence would be best served by increasing the most survivable strategic force, i.e., ballistic missile submarines, while reducing conventional forces. The French have already decided to build a sixth nuclear-powered ballistic missile submarine

The embassy believes that the option of shifting to greater reliance on nuclear forces must be an attractive alternative to the economic burdens of conventional defense.

Budgetary difficulties will force Giscard eventually either to make some hard choices about this relationship, or be faced with the necessity of spreading

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defense money even thinner. Operating costs already absorb over 50 percent of the French military budget. Further increases in personnel expenditures, which account for about three quarters of the operating costs, probably would have to come at the expense of weapons development and procurement. Resources available for defense are unlikely to grow appreciably over the next several years.

On the research and development side, the defense council agreed to continue development of a new multi-purpose combat fighter, the Avion de Combat Futur. Soufflet reconfirmed France's intent not to conduct atmospheric nuclear tests next year, pointing to a readiness to move to underground testing.

In contrast to previous statements about Paris participating in a limited way within Eurogroup to foster European arms development, Soufflet indicated in strong terms that this was not an eventuality. He said that Eurogroup "has done nothing to develop a European arms industry." This statement by Soufflet may not necessarily have closed the door, however, to French association with a Eurogroup subgroup. Giscard is known to be interested in the armaments subgroup, Euronad. If an informal "association" could be worked out with Euronad, France might see this as an opportunity to expand arms sales to NATO members, while still claiming that it has not formally joined the Eurogroup organization.

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FRANCE

The French government has decided to continue the Ariane space-launcher program.

On October 16, a government spokesman announced that France will continue to participate in the European space program in general and the Ariane project in particular. President Giscard apparently made the final decision himself, overriding the objections of his Finance Ministry. The announcement emphasized the importance of maintaining "European independence in space" and promised the "Europeanization" of French technology among the other nine countries participating in the program. The spokesman also assured that the launcher could be used by all the participating countries.

Development of the Ariane had been threatened by the delay of the French to allocate funds for the project. France controls the program because it has assumed responsibility for 62.5 percent of the estimated \$490-million development cost.

The Ariane launch vehicle, also known as the L3S, is intended to put satellites of up to 1,650 pounds into synchronous orbit. The French National Center for Space Studies estimated last year that the Ariane will launch its first satellite in 1979. The Ariane is designed to orbit communications, navigation, and military reconnaissance satellites.

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GREECE

The Greek government is seeking to replace the obsolescent F-84s still operational in its air force and, at the same time, diversify its sources of support.

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Greece's efforts to replace its aging F-84s have included a purchase of 36 F-4Es from the US, the final deliveries of which are expected before the end of the year. The US has also agreed to provide 60 A-7As. In addition, an agreement was recently reached with France for the purchase of 40 Mirage F-1s, with initial delivery in January.

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TURKEY-USSR

Ankara and Moscow have agreed to begin high-level negotiations on investment projects after many hints that Turkey would seek to strengthen economic ties with the Soviet Union. Talks, in fact, have been going on for 18 months, but until now, Ankara has not seen fit to accept Moscow's offers of aid. Heavily burdened by the Cyprus venture and hoping to embark on a \$4.5-billion investment program, Turkey is now likely to accept financial assistance from any source.

In the meetings scheduled to begin in Moscow on October 25, delegates will try to agree on a list of projects to be undertaken in Turkey with Soviet backing. Although Moscow is pushing for an early accord--perhaps in view of Ankara's expectations of a halt in US aid--the Soviets are giving some clues that fulfillment of the agreement may drag on.

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ANGOLA

The US embassy in Zaire reports that, according to President Mobutu, a new provisional government, including representatives of Angola's three insurgent organizations, will be established soon in Angola. A new government for the territory was the major topic at a meeting last week between Mobutu and a high-ranking delegation from Lisbon. The Portuguese Armed Forces Movement apparently wants independence for Angola as soon as possible, rather than within two to three years as proposed by former president Spínola.

According to the embassy, Mobutu has stated privately that a new government will have a Portuguese high commissioner and that Lisbon will retain responsibility for foreign affairs, defense, and finance. Mobutu expects Holden Roberto, head of the Zairian-based National Front for the Liberation of Angola, to be named prime minister. The Portuguese, however, may not foresee such a significant role for Roberto at this time. Leaders of the two other insurgent groups, the Popular Movement for the Liberation of Angola and the National Union for the Total Independence of Angola, are also expected to participate in the government.

The Portuguese have been counting on Mobutu to promote a united front among the three rival insurgent organizations, but he apparently has made little progress, largely because of factionalism within the Popular Movement. Mobutu's remarks suggest that leaders of the Popular Movement's factions will enter the provisional government on an individual basis.

Mobutu did not indicate when the new government might be installed or how long it would govern before full independence. He was also silent on what role the territory's noninsurgent, mainly white, political groups would play in a new government. These groups are pressuring Lisbon heavily for a decolonization plan that will protect the interests of the territory's 500,000 whites.

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Mobutu's comments are generally consistent with what Lisbon has long regarded as a likely decolonization plan for Angola. The Portuguese, Mobutu, and the insurgents themselves all realize that no single insurgent organization has enough military strength or political support inside Angola to effect a direct transfer of power, as in Mozambique and Guinea-Bissau. [REDACTED]

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HONDURAS

A serious division within the cabinet is presenting chief of state General Oswaldo Lopez with the most serious challenge to his government yet.

The cabinet has split over a proposal for settling the border dispute with El Salvador. Foreign Minister Batres, who patiently hammered out the proposal with the Salvadoran foreign minister, resigned this week when a majority of the cabinet ministers failed to give their support. Several other important ministers have also resigned as a measure of their solidarity with Batres.

The cabinet crisis, coming at a time when Honduras is trying to recover from the destruction of hurricane Fifi, has caused renewed pressure on the military to remove Lopez from office. If Lopez is unable to hold his team together during this critical period, he may be replaced by a predominantly military junta.

Lopez has never been known for decisive leadership, but this flaw has been disguised to some extent during his present tenure by the selection of a competent cabinet. The activities of the cabinet have been evident during the recent emergency, however, and Lopez' relative seclusion has not escaped public notice. Should the military decide to ease Lopez aside, there would probably be little opposition. [REDACTED]

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FOR THE RECORD

United Kingdom: Prime Minister Wilson's new government is expected to begin consultations with Washington on the UK's defense review within four to six weeks. No decisions are likely to be taken on projected cutbacks before December or early next year, when the British cabinet plans to inform NATO of the outcome of the review. According to a British defense spokesman, the consultations will include a listing of possible defense cuts, prefaced by a detailed exposition of British reasoning and analysis. London has promised to weigh US reaction before any decisions are reached.

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USSR: According to a French press report, the Soviet helicopter ship Leningrad will make a port call to Senegal in West Africa before returning to the Black Sea. Senegal, although still closely linked to France, may see the visit as a good way to demonstrate its policy of nonalignment. The Leningrad, a guided-missile frigate, and a support ship which have been traveling together since June made no port calls while en route to the Red Sea

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